1996
ANNUAL REPORT

Pan American
SILVER CORP.

The Company's reporting currency is the U.S. dollar as nearly all costs and revenues are expended or received in U.S. dollars. All dollar amounts in this report are expressed in U.S. dollars unless otherwise noted.

Unless otherwise noted, data on U.S.A. properties are described in Imperial units. Data on properties in other countries are described in metric units.

Quiruvilca silver mine, Peru.

Annual General Meeting

May 9, 1997 at 2:00 p.m.,
The Metropolitan Hotel, The Connaught Room,
845 Howe Street, Vancouver, British Columbia

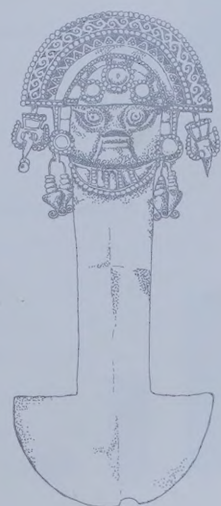
Cover photo: Native silver with calcite, Kongsberg, Norway. Jackie Beckett, photographer. Courtesy of American Museum of Natural History.

CORPORATE PROFILE

Pan American Silver Corp. is a silver production, development and exploration company.

Pan American has grown since early 1994 to become one of North America's most highly leveraged silver equity investments. The Company owns and operates the 2.7 million ounce per year Quiruvilca mine in Peru and holds interests in silver properties in North and South America containing more than 300 million ounces of silver.

Pan American is well financed with $47.3 million in working capital including $42.8 million in cash, and zero debt. Significant shareholders include management, ASARCO Incorporated and a number of senior financial institutions. The Company is listed on The Toronto and NASDAQ stock exchanges and forms part of The TSE 300 Index.



CHAIRMAN'S LETTER TO SHAREHOLDERS

Pan American now ranks as one of North America's leading primary silver mining companies.

Our objectives for 1996 were to improve the financial and operating condition of the Quiruvilca silver mine in Peru, aggressively seek new silver production opportunities, and maintain a very active silver exploration program in the great primary silver producing countries of the world, namely, Mexico, Peru and Bolivia. I am pleased to report that our efforts at Quiruvilca were very successful and that the mine is now operating profitably after six years of losses. During 1996 our efforts to acquire new silver mines focused on four international tenders of silver mines by national governments: one in Russia, one in Peru and two in Bolivia. Three were ultimately postponed to 1997 and the fourth has not yet been resolved. In our exploration activities, drilling programs for new silver deposits were initiated on seven of the Company's properties during the year.

Pan American ended the year in excellent financial condition with working capital of $47.3 million including cash of $42.8 million, zero debt and positive cash flow from mine operations. The Company now provides employment for more than 1,300 people and, in addition to the mine site in northern Peru, maintains exploration and development offices in Zacatecas, Mexico; Lima, Peru; and Potosi, Bolivia.

Pan American now ranks as one of North America's leading primary silver mining companies. Our objective is to become one of the world's leading silver mining corporations. To achieve this we will continue what we did effectively in 1996: explore, develop and acquire additional silver projects worldwide, thereby boosting our silver reserves and resources and ultimately our silver production, both on a short-term and long-term basis.

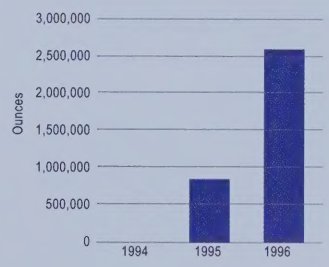
Although the silver price reached $6.00 per ounce early in the year, it averaged only $5.19 and fell to $4.73 by year-end. We believe these prices are unsustainably low and feel they will improve significantly in 1997 for two fundamental reasons - world silver demand remains robust, dramatically higher than world silver supply, and little silver remains in world inventories to fill this large supply deficit.

I remain gratified by the support of the investment community for our silver strategy. The Company's market capitalization is now approximately $160 million (fully diluted) and the shares have good liquidity on both The Toronto and NASDAQ stock exchanges. In February 1997 the Company was added to the prestigious TSE 300 Composite Index, comprising Canada's largest public companies.

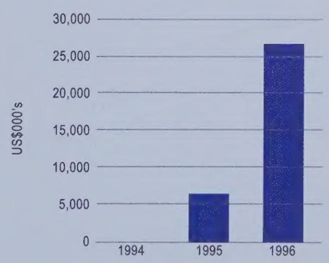
The high quality of Pan American's engineering, financial and geological management team and operating workforce was demonstrated by the successful turnaround of the Quiruvilca mine in 1996. I look forward to new challenges in 1997 as our Quiruvilca team works to improve the mine further and our senior management team becomes involved in new silver projects to continue the Company's rapid growth. We will not waver from our goal of building a world class, primary silver mining corporation.

Ross J. Beaty
Chairman
February 18, 1997

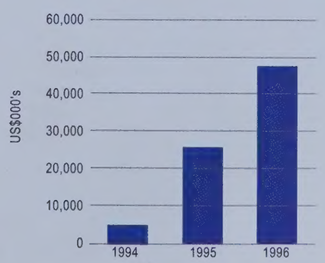
Silver Production



Revenue



Working Capital



Quiruvilca Silver Mine, Peru

The operational and financial condition of the Quiruvilca mine continues to improve.

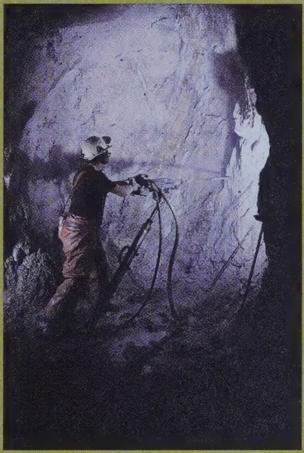
Pan American's most notable 1996 achievement was the financial and technical turnaround of the Quiruvilca silver mine in northern Peru. Pan American holds its interest in the mine through a 99.7% controlling interest in Corporacion Minera Nor Peru S.A., which was acquired in September 1995. The mine is located 76 kilometers east of the coastal city of Trujillo within the Andean mountain range at an elevation 3,800 meters.

Quiruvilca is one of the oldest mines in Peru and is believed to have been worked as early as the 1500's. In 1921 a subsidiary of ASARCO Incorporated acquired the property and operated the mine from 1925 until 1995, gradually expanding from 200 tonnes per day to its current 1,500 tonnes per day capacity. ASARCO retains a 20% royalty in future net earnings from the mine.

Reclamation of historic tailings area, Quiruvilca mine, Peru.

1996 Achievements

Pan American's objectives during the year were to reduce unit costs and increase revenues through higher production. These objectives were implemented by investment of capital, changing the operating philosophy, reducing the workforce and dedicating the Company's senior management to the effort. The efforts were successful in restoring the mine operations to profitability in 1996 after six consecutive years of losses. Achievements include the following:



- mine production increased 16% from an average of 36,400 tonnes per month in late 1995 to an average of 42,000 tonnes per month in late 1996. In October the mill treated 43,100 tonnes, the highest monthly throughput in the mine's 71 year history

- reduction in cash costs per ounce of silver from $4.05 in late 1995 to $3.90 in 1996 and total costs from $5.01 in late 1995 to $4.68 in 1996. Pan American's objective in 1997 is to lower the mine's operating costs to less than $3.50 per ounce of silver produced with further reductions in 1998 and 1999

- a change in operating philosophy resulting in more individual responsibility and reduced levels of supervision

- decentralized administration by moving staff to the mine site from the Lima office

- expanded the departments of engineering and planning and human resources to improve long-term mine management and labour relations, respectively

- reduction of the workforce from 1,600 workers at the beginning of the year to 1,250 by year-end

- reduction in overtime from an average of 30% in 1995 to 11% in late 1996

- reduction of 25% in the cost of mining contractors and 35% in the cost of other contracted services

- closure of the aerial tramway (used for 37 years) for concentrate transport and upgrading the main road for truck haulage reducing the concentrate transport cost from the mine to the port by $7.00 per tonne of concentrate

Pan American's objective is to lower the Quiruvilca mine's operating costs to below $3 per ounce of silver.

- negotiation of acceptable labour contracts covering the mine's workforce for the year 1996, and continuation of harmonious labour relations

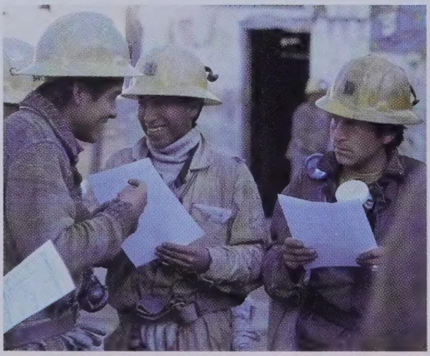
- increased metal recoveries: silver from 82% to 84%; copper from 53% to 61%; and zinc from 88.4% to 89.8%

- implementation of a cost control system

- reduction in operating costs per tonne mined from $60 in 1995, to $53 in 1996, with the ultimate objective to reduce total costs to $35 per tonne mined

- increased production during the year from 2,506,633 ounces of silver in 1995 to 2,624,213 ounces in 1996, and 31,741 tonnes of zinc concentrate in 1995 to 34,603 tonnes in 1996

- successful deep drilling extended known mineralization 120 metres below the lowest working level.



Ore reserves - Quiruvilca mine

Year	Tonnes	Ag g/t	Cu %	Pb %	Zn %
1996	**2,612,100**	**224**	**0.43**	**1.72**	**5.14**
1995	3,078,000	209	0.46	1.63	4.70
1994	2,344,000	240	0.40	1.92	5.11
1993	1,420,000	304	0.43	2.13	5.83
1992	1,847,000	265	0.39	2.22	6.15

Operations

The Quiruvilca silver mine now extends over an area four kilometers long and three kilometers wide. Twenty three veins are presently being mined of which four contribute 52% of the production. Most veins average less than 0.6 meters in width and there are presently more than 100 active stopes in the mine. It is a tribute to the skills of the mine employees that production can be maintained at the high level of 1,500 tonnes per day from such narrow veins.

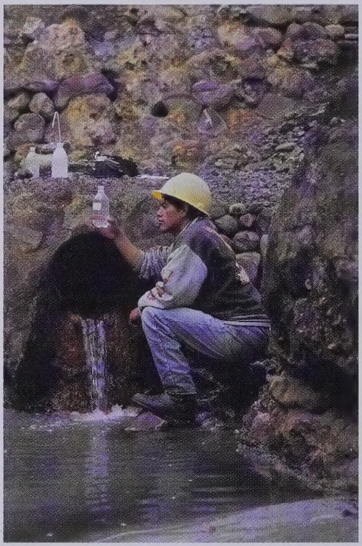
Mill production in 1996 was 459,660 tonnes grading 211 grams per tonne of silver, 4.72% zinc, 1.40% lead, 0.41% copper.

Metal production in 1996 was 2,624,213 ounces of silver, 34,603 tonnes of zinc concentrate, 8,414 tonnes of lead concentrate and 5,988 tonnes of copper concentrate. Production in 1997 is budgeted at 504,000 tonnes milled with production of 2,834,000 ounces of silver, 36,327 tonnes of zinc concentrate, 8,348 tonnes of lead concentrate and 6,062 tonnes of copper concentrate. As can be seen by these numbers, the Quiruvilca mine is also a substantial producer of zinc. It is encouraging that zinc prices have increased from an average of $0.46 per pound in 1996 to more than $0.50 per pound with further increases predicted by many Canadian mining analysts due to improving supply and demand fundamentals for zinc.

It is a tribute to the skills of the mine workers that production can be maintained at a high level.

Environment

Due to the long operating history of the Quiruvilca mine, several significant environmental issues existed when the Company acquired the mine. During 1996, the Company expended $0.9 million in rehabilitating and revegetating a large abandoned tailings area, reducing the potential for significant acid drainage from that area, and stabilizing the operating tailings dam. In 1997 and 1998, Pan American will expend further funds to improve the mine's environmental condition including construction of a water treatment plant that will produce by-product copper.



The Company continues to evaluate a number of world class silver acquisition opportunities

Investment Program

During the year, Pan American invested approximately $3.6 million to purchase spare parts and new mining equipment. This included 120 drills, 80 mining cars and eight mine locomotives. In addition, $0.7 million was expended modifying the crushing plant to increase mill throughput and reduce unit costs. The 1997 operating budget calls for $3.15 million to be expended in developing new mining levels on wider veins below the lowest existing levels of the mine, thus reducing costs and extending the mine's life well into the next century.

Peru

During 1996, Peru continued its orderly progression towards a more developed and free economy. Despite occasional difficulties such as the December incident at the Japanese Embassy, Peru's business environment remains stable, productive and rapidly growing. Inflation in 1996 was 10% per annum. Free currency exchangeability and a positive foreign investment environment prevail. Pan American continues to be pleased to be part of the Peruvian mining economy and is actively expanding beyond the Quiruvilca mine with other mining projects in Peru.

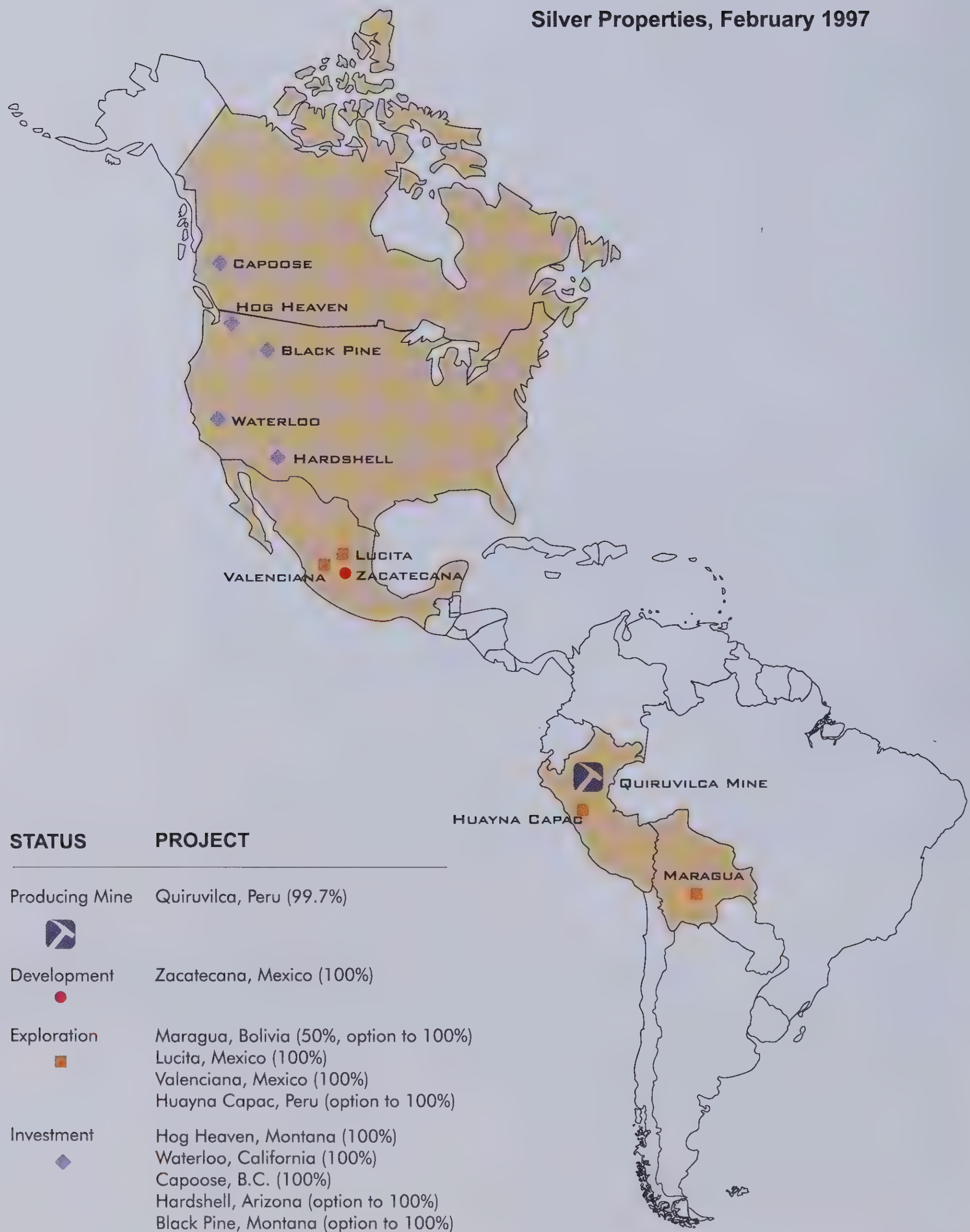
Mill production history - Quiruvilca mine

Year	Tonnes Treated	Silver grade (g/t)	Copper (%)	Lead (%)	Zinc (%)
1996	**459,660**	**211**	**0.41**	**1.40**	**4.72**
1995	452,090	210	0.37	1.48	4.42
1994	466,000	221	0.23	1.58	4.50
1993	399,000	226	0.22	1.61	4.62
1992	339,000	213	0.22	1.42	4.11
1991	385,000	239	0.31	1.37	4.03
1990	418,000	218	0.25	1.45	4.16

Metal production history - Quiruvilca mine

Year	Silver (ounces)	Zinc concentrate (tonnes)	Lead concentrate (tonnes)	Copper concentrate (tonnes)
1996	**2,624,213**	**34,603**	**8,414**	**5,988**
1995	2,506,635	31,741	8,772	4,159
1994	2,777,011	33,109	10,136	2,355
1993	2,425,339	29,792	9,066	1,411
1992	1,923,064	22,394	6,674	1,098
1991	2,651,971	24,504	7,945	2,603
1990	2,452,065	27,690	8,641	2,767

Silver Properties, February 1997



STATUS	PROJECT
Producing Mine	Quiruvilca, Peru (99.7%)
Development	Zacatecana, Mexico (100%)
Exploration	Maragua, Bolivia (50%, option to 100%) Lucita, Mexico (100%) Valenciana, Mexico (100%) Huayna Capac, Peru (option to 100%)
Investment	Hog Heaven, Montana (100%) Waterloo, California (100%) Capoose, B.C. (100%) Hardshell, Arizona (option to 100%) Black Pine, Montana (option to 100%)

EXPLORATION AND DEVELOPMENT PROJECTS

Zacatecana, Mexico

The Company holds title to proven and probable reserves of 7.8 million tonnes grading 74 grams per tonne of silver and 0.43 grams per tonne of gold within a tailings deposit derived from a large number of old Spanish mines in the region. The tailings also contain a significant mercury content derived from the original amalgamation of silver by the patio process. Activities in 1996 on the Zacatecana property were confined to extensive discussions with Mexican Government officials regarding minimizing the Company's potential environmental liabilities resulting from a mine development on the property. Work was also undertaken to acquire other silver tailings deposits in the area but none were acquired by year-end. Additional tailings acquisitions and further permitting work are required before a production decision can be made on this project.

Lucita, Mexico

The Lucita property comprises the northern third of the Zacatecas silver camp where historic production is estimated to be 750 million ounces of silver. Pan American increased its 100% owned land position in 1996 to 10,000 hectares from 5,600 hectares. Extensive, strongly developed vein and alteration systems with grades up to 2.5 kilograms of silver per tonne were mapped, sampled and geophysically surveyed. A 10-hole, 1,540 meter first phase drill program tested one area of the property with uneconomic results. Exploration is now expanding into the new areas acquired in 1996 to select targets for additional diamond drilling later in 1997.

Valenciana, Mexico

The 100% owned Valenciana property, located about 120 kilometers northwest of the city of Zacatecas was acquired in mid-1996. It covers a series of precious and base metal epithermal vein and stockwork prospects that extend four kilometers along the margin of the LaLaguna graben. Following mapping, sampling and VLF geophysics, a nine hole, 1,533 meter drill program was completed. The best intersection was 61.5 meters grading 57 grams of silver

Drilling programs for new silver deposits were initiated on seven of the Company's properties during the year.

per tonne and 0.52 grams of gold per tonne, including 3.58 meters grading 232.4 grams of silver per tonne and 1.76 grams of gold per tonne. Further geophysical surveying and possible drilling will be carried out in 1997.

Maragua, Bolivia

The Maragua property is located in the central Bolivian altiplano where nearly all of Bolivia's famous historic silver production has been derived, and 50 kilometers northeast of the world's largest silver deposit at Cerro Rico, Potosi. Pan American purchased a 50% interest in early 1995 and holds an option to purchase the remaining 50% interest by late 1997.

During 1996, the Company carried out a four hole, 1,030 meter diamond drill program to test two zones on the property. Two holes were drilled 250 meters apart at the Chipas zone, a bulk tonnage silver target near a small silver mine which produced silver intermittently for about 100 years. Two holes were also drilled 230 meters apart at the Foster zone, (four kilometers south of the Chipas zone), a very large and intense alteration zone and related IP anomaly where a number of small historic tin workings are known. All holes intersected sub-economic silver or tin mineralization over thick intervals from surface to the bottom of each hole. At the Foster zone, a major new tin occurrence has been discovered with potential for a multi-hundred million tonne resource. Further drilling is planned in 1997 to establish whether there are areas with elevated grade within the 1,500 meter long, 500 meter wide alteration zone sufficient to produce an economic bulk tonnage ore body and to determine whether a zone of silver-tin mineralization exists as at the nearby Cerro Rico deposit. At the Chipas zone, silver grades were lower than had been expected from the native silver mineralization observed in many sections of the drill core and significantly higher silver grades from underground sampling in the zone. Further drilling is required to establish the true grade of the 800 meter long, 60 meter wide potentially open pittable silver zone.

Hog Heaven, Montana

A 100% interest in the Hog Heaven property was acquired by the Company in June 1994. The property contains a well defined silver resource of approximately 11.2 million tons grading 4.34 ounces of silver per ton (48.7 million ounces). A full feasibility study and mine permitting completed in 1988 recommended production at a rate of 2.5 million ounces of silver per year but a mine was not built due to declining silver prices. Pan American believes that a mine at Hog Heaven would become economic at silver prices of more than $5.40 per ounce and that an open-pit mine may be relatively quickly permitted for production.

Waterloo, California

This 1,900 acre property, located on patented claims near the town of Barstow, southern California, is 100% owned by the Company. Proven and probable silver resources are 37.2 million tons grading 2.71 ounces of silver per ton and 13.4% barite, with a 0.27:1 stripping ratio. Permitting was completed during the early 1980's for a large tonnage, open-pit silver mine producing approximately four million ounces of silver per year but a decline in the silver price kept the property on care and maintenance. Pan American intends to wait for silver prices in excess of $6.50 per ounce before proceeding with permitting and development.

Black Pine, Montana

Synchronous with the Company's Quiruvilca mine acquisition on September 1, 1995, ASARCO Incorporated granted Pan American a four year option to purchase the Black Pine property for $1.5 million. The Black Pine mine, located eight miles northwest of Philipsburg, Granite County, Montana, has produced intermittently since 1882, including a period from 1974 to 1989. The property is capable of being rapidly re-opened to produce about one million ounces of silver annually. Current reserves are approximately 1.3 million tons grading 5.61 ounces of silver per ton and 0.5% copper (7.3 million ounces of silver). Pan American intends to wait for silver prices in excess of $6.00 per ounce before evaluating whether to exercise its option to re-open this mine to renewed silver production.

Hardshell Property, Arizona

The Company holds a four-year option to purchase a 100% interest in this property, located near the Mexican border in southern Arizona. Approximately 20 million tons grading 3.35 ounces of silver per ton are estimated to be open-pit mineable at a 2:1 strip ratio. Pan American estimates that the property could be economically developed at prices in excess of $7.50 per ounce.

The high quality of Pan American's engineering, financial, geological management team and operating workforce was demonstrated in 1996.

Capoose, British Columbia

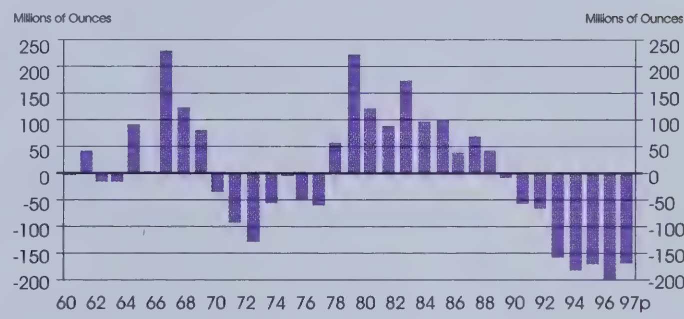
Pan American acquired this property in early 1996 in consideration for a 2% net smelter return royalty. Located in central British Columbia, the property was extensively explored in the late 1970's. Based on 18,688 meters of drilling an open-pit mineable silver resource was determined at 28.3 million tonnes grading 36 grams per tonne of silver and 0.3 grams per tonne of gold. The property also contains several zones with potential for higher grade silver resources, but will remain inactive pending silver prices of more than $9.00 per ounce.

Summary of silver reserves and resources (all in Imperial units)

Property	Category	Tons	Silver Grade (oz/ton)	Silver (million ozs)	By-products
Quiruvilca	Proven + Probable	2,879,000	6.53	18.8	0.43% copper, 5.1% zinc, 1.7% lead
Zacatecana	Proven + Probable	8,580,000	2.16	18.5	0.013 oz/ton gold
Hog Heaven	All Categories	11,228,000	4.34	48.7	0.019 oz/ton gold
Waterloo	Proven + Probable	37,235,000	2.71	100.9	13.4% barite
Capoose	All Categories	31,130,000	1.05	32.7	0.01 oz/ton gold
Maragua	All Categories	2,487,000	7.81	19.4	
Hardshell	Proven + Probable	20,000,000	3.35	67.0	8% manganese
Black Pine	Proven + Probable	1,300,000	5.61	7.3	0.5% copper
Total ounces (millions)				**313.3**	

Pan American's silver strategy is based on two price principles. First, the Company's mine production, acquisition and development decisions require a break-even operating cost of $4.00 or less per ounce. Second, the Company's silver property investments are based on the likelihood of silver prices rising to more than $8.00 per ounce by the end of the 1990's. Adherence to these principles should allow the Company to produce profitably during periods of low silver prices while giving the Company outstanding leverage to the probability of higher silver prices in the future.

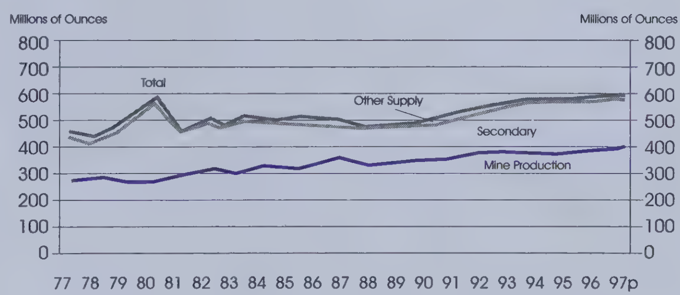
Silver Market Surplus/Deficit



Source CPM Group's Silver Survey 1997

Silver prices in 1996 ranged from a high of $5.79 in early February to a low of $4.67 in late November. As in recent years, silver prices were quite volatile due to the relatively tiny size of the global silver market as compared to the very large size and liquidity of the world commodity and investment funds.

Silver Supply by Sector



Source CPM Group's Silver Survey 1997

Independent silver supply and demand studies were published in 1996 by the New York research firm CPM Group and the London based firm Gold Field Mineral Services. These studies differ in detail but not in overall magnitude or trends. CPM Group's most recent study in February 1997 shows that the silver market had a supply deficit for the seventh consecutive year. Silver demand in 1996 exceeded new silver supply by 198 million ounces. Since 1989, this deficit has totalled 678 million ounces. This contrasts to the estimated 712 million ounces of liquid inventories which built up during the 1980's as a result of high silver prices and relatively low demand. The remaining silver inventories are clearly becoming depleted. Central banks hold insignificant stocks of silver, in contrast to their gold holdings. CPM Group states: "It is clear that worldwide bullion inventories

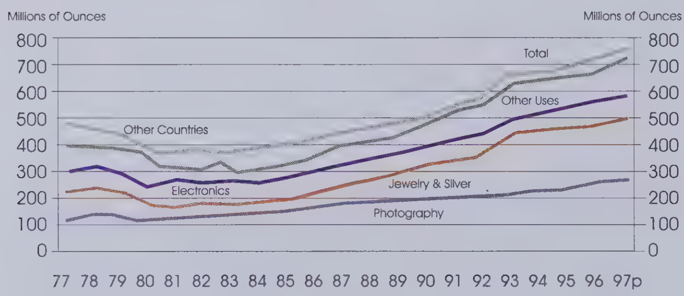
are at their lowest levels in more than 46 years" and further: "More than 1.0 billion ounces have been used of the 1.5 billion ounces of silver bullion inventories that are estimated to have existed at the beginning of 1990."

According to recent estimates by CPM Group, silver supply rose by 0.9% in 1996 to 522 million ounces. Silver demand rose 3.8% in 1996 to 720 million ounces. The 1997 silver deficit is projected by CPM Group to be 169 million ounces. Since 1982, silver supply has increased by only 4% or 0.3% annually while total world silver demand has increased by 97% or 4.5% per year.

Primary silver mine production accounts for only 15% of total new silver supply. By-product silver production is silver price-insensitive and is not likely to increase even if silver prices rise. In 1997, the Greens Creek and Cannington silver-rich mines will contribute to new supply but the silver deficit is expected to be very large yet again.

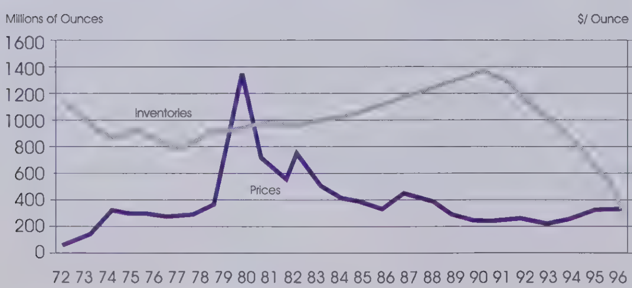
These are very bullish fundamentals that fully support the Company's view that higher silver prices are inevitable in the short term. When this will happen depends on many factors, the most significant of which is the amount of unreported silver inventories that exists around the world for sale at or near today's silver price. Pan American is confident that its objective of discovering, acquiring and producing as much silver as possible will be a profitable strategy for the balance of the 1900's.

Silver Fabrication Demand



Source CPM Group's Silver Survey 1997

Silver Bullion Inventories and Silver Prices 1972 - 1996



Source CPM Group's Silver Survey 1997

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The consolidated financial statements and all information in the Annual Report are the responsibility of the Board of Directors and management. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada from information available to February 28, 1997. Financial information presented throughout the Annual Report is consistent with the information presented in the consolidated financial statements.

The Audit Committee of the Board of Directors meets with management to insure that management maintains systems of internal and administrative controls to provide reasonable assurance that financial information is accurate. The Audit Committee also meets with the Company's external auditors to review the scope and results of their audit and auditors' report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by Deloitte & Touche, Chartered Accountants, who were appointed by the shareholders. The Auditors' Report sets out the scope of their examination and their opinion on the consolidated financial statements.

Statements contained in this Annual Report that are not historical facts are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from estimated results. Important factors that could cause actual results to differ materially from those in such forward-looking statements are identified in the Company's Annual Information Form and Form 40-F, which are filed with securities regulatory authorities in Canada and the United States. The Company assumes no obligation to update its forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such statements.

A Hawkshaw

Anthony Hawkshaw
Chief Financial Officer
Vancouver, February 28, 1997

This discussion and analysis should be read in conjunction with the consolidated financial statements. On December 31, 1995, the Company changed its reporting currency to the United States dollar. All amounts in this discussion and in the consolidated financial statements are expressed in United States dollars, unless specifically identified otherwise.

Nature of the Company's Business and Risks and Uncertainties

Pan American Silver Corp. ("Pan American" or the "Company") is a silver exploration, development and mining company. The Company's Quiruvilca mine is located in Peru. In addition to silver, the Quiruvilca mine produces copper, lead and zinc. Pan American conducts acquisition, exploration and development activities throughout the world. The Company intends to acquire additional silver exploration and development properties and to increase its silver production by acquiring interests in producing silver properties or silver producing companies.

The Company's success depends on a number of factors. Typical risk factors include metal price fluctuations and operating hazards encountered in the mining business. Competition for silver resource properties, producing mines or interests in producing companies may limit opportunities to acquire reasonably priced assets. Future government, legal or regulatory changes could affect any aspect of the Company's business including, among other things, the Company's title to properties, environmental permitting and costs, labour relations, or the ability to import required equipment or materials. Many of these factors are beyond the Company's control; however, risks and uncertainties are managed, in part, by experienced managers, by maintaining adequate liquidity, by cost control initiatives and by geographic diversification.

Outlook for 1997

Management anticipates that 1997's production will be slightly more than 1996's. The Quiruvilca mine is budgeted to produce 2.8 million ounces of silver at a cash cost of less than $3.50 per ounce. Exploration and property investigation costs are expected to increase by $1.5 million from 1996's costs and amount to $2.8 million. Corporate office costs and general and administration expenses and investment income are expected to be similar to 1996 levels. Depreciation and amortization expenses will increase by an estimated $0.7 million if additional capital assets are placed into service as planned. Peru capital taxes are not expected to change significantly.

Revenue, or net smelter return ("NSR"), will change as metal prices change - a ten per cent increase or decrease in either the price of silver or zinc would increase or decrease revenue by five per cent. A similar increase or decease in the price of either lead or copper would increase or decrease revenue by one per cent. A ten percent depreciation of the Peruvian sole relative to the United States dollar would decrease operating costs by approximately three per cent.

Workers at the Quiruvilca mine are represented by three unions. Contracts with those unions expired at year end and new contracts are being negotiated. Pan American maintains good relations with the unions and the result of negotiations is not expected to have a material impact on operations.

During the first quarter of 1997, Pan American will recognize two unusual gains - a realized gain of $275,000 from the sale of 2,000,000 shares of Zicor Mining Corp. and a realized gain of $197,500 on the purchase and subsequent sale of silver call options. The Company will also recognize market value fluctuations in certain outstanding silver option contracts.

Pan American bought and holds silver call options that expire on July 8, 1997. Those options cost $222,500 and grant the Company the right to buy one million ounces of silver at a price of $4.90 per ounce. At February 28, 1997, the market value of the options was $480,000.

The Company sold call options for proceeds of $145,000 that grant the purchaser the right to buy, on July 8, 1997, one million ounces of silver at $5.70 per ounce. The proceeds from those sales will enter into the determination of the ultimate gain or loss from the purchase and sale of unsettled silver call options. The market value of the options sold by the Company was $125,000 at February 28, 1997. If the price of silver is less than $4.90 per ounce on July 8, 1997, the Company will realize a loss of $77,500. If the price of silver is more than $5.70 per ounce on July 8, 1997, the Company will realize a gain of $945,000. If the price of silver is in a range above $4.90 and less than $5.70 per ounce, the Company may realize a gain that will be less than $945,000. Until these options expire or are closed out the Company's operating results will reflect changes in the market value of the contracts. Pan American may trade out of these option contracts or enter into other metals derivative contracts.

Liquidity and Capital Resources

Cash and short-term investments amounted to $42.8 million at December 31, 1996 - an increase of $17.0 million from December 31, 1995. The increase is principally due to the issue of 2,000,000 special warrants and the issue of 1,750,000 common shares upon the exercise of share purchase warrants for net proceeds of $27.5 million. Cash was used to finance increases in non-cash working capital items ($1.7 million), for spending on property, plant and equipment ($4.8 million), spending on resource properties ($1.3 million) and payments to discharge a liability for the eventual retirement or severance of Peruvian workers ($2.7 million). Capital spending for 1997 is forecast to amount to approximately $7.9 million. Except for $0.7 million, all of this spending is discretionary, but is advisable to extend the life of the Quiruvilca mine and to improve profitability. At December 31, 1996, liabilities relating to Peruvian employee severance indemnities accrued before 1990 were $1.7 million of which $0.4 million, included in current liabilities, must be paid during 1997.

Working capital was $47.3 million at December 31, 1996 which compares to $28.6 million at December 31, 1995. Changes in working capital included the increase in cash of $17.0 million previously discussed and increases in receivables of $1.2 million, supplies inventories of $0.7 million, prepaid expenses and deposits of $0.7 million and a decrease in accounts payable and severance indemnities of $0.9 million. These increases in working capital were partially offset by decreased concentrates inventories of $1.8 million. Concentrates inventories were abnormally high

at December 31, 1995 and are now at more normal levels. Concentrates inventories, in dry metric tons ("tonnes"), at December 31 were:

	1996	1995
Zinc concentrate	**6,562**	9,330
Lead concentrate	**408**	2,278
Copper concentrate	**161**	1,112

Non-cash working capital requirements for 1997 are expected to be unchanged from December 31, 1996. Since acquiring Corporacion Minera Nor Peru S.A. ("Nor Peru"), Pan American has gradually increased supplies inventory in order to ensure uninterrupted operations. Supplies are now at about the required level. Planned capital spending and exploration and development projects will be funded from operating cash flow and the Company's treasury.

At December 31, 1995 cash and short-term investments were $25.8 million and working capital was $28.6 million compared to working capital of $5.0 million at December 31, 1994. The increases in cash and working capital were due to issuing common shares for net proceeds of $23.3 million. Cash was used to fund spending on property, plant and equipment and resource properties ($1.0 million), to pay severance indemnities ($0.5 million), and to finance changes in non-cash working capital items and an operating loss ($1.2 million). Non-cash working capital changes included an increase in accounts receivable of $2.6 million, increased inventories of $6.3 million and prepaid expenses and deposits of $0.6 million offset by increased accounts payable and severance indemnities of $6.5 million. The increase in non-cash working capital was due to the acquisition of Nor Peru.

Results of Operations – 1996

For the year ended December 31, 1996, the Company's net loss was $1.9 million ($0.09 per share) compared to a net loss for 1995 of $0.9 million ($0.07 per share). Mining profit of $1.0 million and investment income of $1.5 million were offset by exploration expenses of $1.3 million, a write-down of the Maragua property of $0.5 million, depreciation of $1.2 million, capital taxes of $0.3 million and general and administration costs of $1.1 million. The $1.1 million improvement in mining profit is principally due to cost control measures and productivity improvements. The $0.9 million increase in investment income is primarily due to the higher average balance of short-term investments when compared to 1995. The increases in exploration expense and property write down are due to increased direct exploration expenditures and property investigation activities. General and administration expense has increased as a result of the Company's growth.

Silver recovered during the year was 2,624,213 ounces compared to 864,344 ounces for the four months that Pan American owned Nor Peru during 1995. For the twelve months ended December 31, 1995, recovered silver was 2,506,633 ounces. Silver production and costs both improved as planned. The costs per ounce of silver were:

	1996	1995
Cash cost	**$ 3.90**	$ 4.05
Production cost	**4.35**	4.46
Total cost	**$4.68**	$5.01

Recovered silver is contained in three separate concentrates - zinc, copper and lead. During 1996, Pan American sold 37,546 tonnes of zinc concentrate at an average NSR of $325 per tonne (1995 - 9,330 tonnes at $311); 9,238 tonnes of lead concentrate at $772 per tonne (1995 - 2,278 tonnes at $764); 6,501 tonnes of copper concentrate at $1,211 per tonne (1995 - 1,112 tonnes at $1,229) and 427 tonnes of copper precipitate at $673 per tonne (1995 - 146 tonnes at $1,103). The increase in tonnes sold during the year is due to owning the mine for twelve, rather than four months. The Company sells concentrates under contracts with metals trading or smelting companies. The existing contract for the sale of copper concentrate expires at the end of 1997. Renewing or replacing this contract is not expected to be difficult. Sales contracts for zinc and lead were re-negotiated during 1996 and now extend to the end of 1998 under terms somewhat better than those of the previous contracts.

The Quiruvilca mine's monthly average production, recovery factors, underground development and underground drilling for the year 1996 compared to the 1995 year were:

	1996	1995
Tonnes milled	**38,333**	37,726
Zinc concentrate - tonnes	**2,878**	2,645
Lead concentrate - tonnes	**699**	731
Copper concentrate - tonnes	**509**	347
Silver recovered	**84.0%**	82.0%
Zinc recovered	**89.8%**	88.4%
Lead recovered	**81.5%**	81.8%
Copper recovered	**61.1%**	52.8%
Development - meters	**409**	409
Diamond drilling - meters	**302**	133

Results of Operations – 1995

For 1995, the Company's net loss was $0.9 million ($0.07 per share) compared to a net loss for the two month's ended December 31, 1994 of $0.1 million ($0.01 per share). The 1994 figures reflect a change in the Company's financial year from October 31 to December 31. The loss for 1995 was attributable to a $0.5 million loss from the Quiruvilca mine, which included $0.3 million of exploration, depreciation expense of $0.4 million, a write off of $0.2 million in deferred exploration costs, expensing general exploration costs of $0.2 million and higher general and administration expenses. Significantly higher interest income was due to investing the proceeds from the issue of special warrants and the exercise of common share purchase warrants. Items that reduced the loss included a gain on the sale of a subsidiary amounting to $0.2 million, exchange gains of $0.1 million and interest income of $0.6 million.

AUDITORS' REPORT

To the Shareholders of Pan American Silver Corp.

We have audited the consolidated balance sheets of Pan American Silver Corp. as at December 31, 1996 and 1995 and the consolidated statements of operations and deficit and changes in financial position for the years ended December 31, 1996 and 1995, the two months ended December 31, 1994 and the year ended October 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly in all material respects the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years ended December 31, 1996 and 1995, the two months ended December 31, 1994 and the year ended October 31, 1994 in accordance with generally accepted accounting principles applied on a consistent basis.

Deloitte + Touche

CHARTERED ACCOUNTANTS
Vancouver, B.C. February 28, 1997

CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)	**December 31 1996**	December 31 1995
Assets		
Current		
Cash and short-term investments	**$ 42,794**	$ 25,786
Accounts receivable	**3,893**	2,649
Inventories (Note 4)	**5,188**	6,259
Prepaid expenses	**1,206**	556
	53,081	35,250
Property, plant and equipment, net (Note 5)	**8,922**	5,290
Resource properties (Note 6)	**5,562**	4,736
Investments	**24**	24
Other	**89**	76
	$ 67,678	$ 45,376
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 5,432**	$ 6,186
Current severance indemnities	**370**	503
	5,802	6,689
Severance indemnities	**1,334**	3,965
	$ 7,136	$ 10,654
Shareholders' Equity		
Share capital (Notes 7 and 11)		
Authorized:		
50,000,000 common shares of no par value		
Issued:		
December 31, 1996 - 23,709,169 shares		
December 31, 1995 - 19,841,169 shares		
	66,643	39,087
Translation adjustment	**182**	55
Deficit	**(6,283)**	(4,420)
	60,542	34,722
	$ 67,678	$ 45,376

Commitment (Note 9)

APPROVED BY THE BOARD

Ross J. Beaty, Director

John H. Wright, Director

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(in thousands of U.S. dollars)	Twelve months ended December 31 1996	Twelve months ended December 31 1995	Two months ended December 31 1994	Twelve months ended October 31 1994
Revenue				
Production	**$ 27,561**	$ 6,175	$ -	$ -
Operating				
Operating	**26,543**	6,280	-	-
Depreciation and amortization	**1,210**	354	-	-
	27,753	6,634	-	-
Loss before undernoted items	**(192)**	(459)	-	-
Exploration	**(1,254)**	(509)	(13)	(88)
Write-down of resource property (Note 6)	**(519)**	(226)	-	-
Capital taxes	**(345)**	-	-	-
General and administration	**(1,119)**	(644)	(95)	(213)
Investment income, net	**1,521**	585	37	51
Gain on sale of subsidiary	**-**	230	-	-
Exchange gain	**45**	86	2	1
Net loss for the period	**(1,863)**	(937)	(69)	(249)
Deficit at beginning of period	**(4,420)**	(3,483)	(3,414)	(3,165)
Deficit at end of period	**$ (6,283)**	$ (4,420)	$ (3,483)	$ (3,414)
Net loss per share (Note 7d)	**($0.09)**	($0.07)	($0.01)	($0.03)
Average shares outstanding	**21,693,969**	14,127,028	9,854,714	8,360,843

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(in thousands of U.S. dollars)	Twelve months ended December 31 1996	Twelve months ended December 31 1995	Two months ended December 31 1994	Twelve months ended October 31 1994
Operating activities				
Net loss for the period	**$ (1,863)**	$ (937)	$ (69)	$ (249)
Items not involving cash				
Depreciation and amortization	**1,210**	354	-	-
Provision for severance	**110**	-	-	-
Write-down of resource property (Note 6)	**519**	226	-	-
Gain on sale of subsidiary (Note 3b)	**-**	(230)	-	-
	(24)	(587)	(69)	(249)
Changes in non-cash operating working capital items				
Accounts receivable	**(1,244)**	1,817	14	(22)
Inventories	**1,071**	(1,068)	(9)	-
Prepaid expenses	**(650)**	(382)	(47)	-
Current liabilities	**(887)**	(954)	40	12
	(1,710)	(587)	(2)	(10)
	(1,734)	(1,174)	(71)	(259)
Financing activities				
Shares issued for cash, net of issue costs	**27,556**	30,520	117	2,352
Share subscriptions received	**-**	-	(117)	117
Shares issued for subsidiary	**-**	3,005	-	-
Special warrants issued, net of issue costs	**-**	(7,237)	248	6,989
	27,556	26,288	248	9,458
Investing activities				
Proceeds from sale of subsidiary	**-**	24	-	-
Severance indemnities	**(2,741)**	(470)	-	-
Non-current investment	**-**	(24)	-	-
Acquisition of subsidiary (Note 3)	**-**	(3,478)	-	-
Disposition of subsidiary	**-**	230	-	-
Translation adjustment	**127**	55	-	-
Acquisition of cash of subsidiary, net	**-**	257	-	4
Property, plant and equipment	**(4,842)**	(566)	-	-
Resource properties, net	**(1,345)**	(532)	(1,046)	(3,095)
Other	**(13)**	3	(67)	-
	(8,814)	(4,501)	(1,113)	(3,091)
Increase (decrease) in cash and short-term investments for the period	**17,008**	20,613	(936)	6,108
Cash and short-term investments at beginning of period	**25,786**	5,173	6,109	1
Cash and short-term investments at end of period	**$ 42,794**	$ 25,786	$ 5,173	$ 6,109

See accompanying notes to consolidated financial statements

December 31, 1996 and 1995
(Tabular amounts are in thousands of US dollars)

1. NATURE OF OPERATIONS

The Company is a silver exploration, development and mining company. The recoverability of amounts capitalized for property, plant and equipment and resource properties depends on the discovery or exploitation of ore reserves.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and as set out below. Significant differences from United States accounting principles are disclosed in Note 12.

a) Basis of presentation

These consolidated financial statements are expressed in United States dollars and include the accounts of the Company and its subsidiaries. All intercompany transactions and accounts have been eliminated.

b) Inventories

Concentrate inventories are stated at the lower of average cost and net realizable value determined by using the first-in, first-out method. Supplies inventories are carried at the lower of average cost and replacement cost.

c) Resource properties and Property, plant and equipment

i) Resource properties

Acquisition costs of resource properties together with direct exploration and development expenditures thereon are deferred in the accounts. When production is attained such costs will be amortized on a units-of-production basis over a property's expected economic life. When deferred expenditures on individual producing properties exceed the estimated net recoverable value, the properties are written down to the estimated value. Deferred costs relating to abandoned properties are written-off. Exploration carried out on producing ore bodies is charged to operations.

ii) Plant and equipment are stated at the lower of cost or estimated net recoverable value. Maintenance, repairs and renewals are charged to operations. Betterments are capitalized.

Depreciation is calculated over the lesser of an asset's estimated useful life and the life of the property to which it relates.

d) Reclamation costs

Ongoing reclamation and site restoration costs are charged to earnings in the period they are incurred. Estimated closure costs for reclamation and site restoration are provided for and accrued on a units-of-production basis.

e) Foreign currency translation

The accounts of self-sustaining foreign operations are accounted for by the current rate method. Under this method assets and liabilities are translated into U.S. dollars at prevailing rates of exchange at each balance sheet date and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations.

Foreign currency transactions and balances and accounts of integrated foreign operations are accounted for by the temporal method. Under this method monetary items are translated at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical rates, and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations.

f) Cash and short-term investments

Cash and short-term investments include cash and highly liquid, fixed income securities or term deposits with an AA credit rating, an average yield of 5.4 per cent and an average term to maturity of one year.

3. BUSINESS ACQUISITIONS AND DISPOSITIONS

a) Effective September 1, 1995, the Company acquired an 80% voting interest (53% equity interest) in Corporacion Minera Nor Peru S.A. ("Nor Peru"). Between September 1, 1995 and December 31, 1995, the Company increased its ownership in Nor Peru to a 100% voting interest (99.7% equity interest). The acquisition was accounted for by the purchase method and the results of operations of Nor Peru have been consolidated from September 1, 1995. The consideration paid and the allocation of the purchase price were:

Consideration paid on August 31, 1995 (500,000 common shares)	$	2,749
Consideration paid after August 31, 1995:		
Cash		473
Common shares (159,955 shares)		256
	$	3,478

The allocation of the purchase price was:

Cash	$	302
Accounts receivable		4,405
Inventories		5,191
Prepaid expenses		166
Property, plant and equipment		5,078
Other		252
Accounts payable and accrued liabilities		(7,472)
Severance indemnities		(4,444)
Net assets acquired	$	3,478

In addition to the 500,000 common shares paid on August 31, 1995, the Company issued 500,000 non-transferable common share purchase warrants to the vendor of Nor Peru. Each common share purchase warrant allows the holder to purchase one common share of the Company for C$7.50 until December 31, 1999.

b) In July 1995, the Company completed the sale of its 60% interest in Equinox Resources (Wash.) Inc. in exchange for cash of $300 and 2,800,000 common shares of Zicor Mining Corp. ("Zicor"). The Company realized a $230,000 gain on this sale due primarily to the disposal of accrued reclamation costs.

The shares in Zicor are recorded as a non-current investment with a carrying value of $24,000 (Note 11b).

4. INVENTORIES

	1996	1995
Concentrates	$ 2,162	$ 3,978
Supplies	3,026	2,281
	$ 5,188	$ 6,259

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	1996 Net	1995 Net
Property, plant and equipment	$ 10,477	$ 1,555	$ 8,922	$ 5,290

6. RESOURCE PROPERTIES

Resource properties consist of:

	1996	1995
Waterloo	$ 4,051	$ 3,991
Zacatecana and other Mexican properties	1,465	593
Other	46	152
	$ 5,562	$ 4,736

Waterloo

The Company acquired a 100% interest in the Waterloo silver-barite property located in the Calico Mining District of San Bernardino County, California. The purchase price was $1,000,000 and 1,000,000 common shares issued at an ascribed value of $2,917,675 (C$3,980,000).

Zacatecana and other Mexican properties

The Company obtained a concession permit in April 1995 covering a silver tailings deposit in Zacatecas State in Central Mexico. It also has agreed to make payments as follows:

i) a net smelter return royalty ("NSR") on production from the deposit starting at 0.01% if the price of silver is $3.01 per ounce and rising 0.01% for each $0.01 per ounce increase in the price of silver to a maximum 6% NSR. The maximum payable is $3,000,000. The Company may purchase the NSR at any time for $2,000,000;

ii) a minimum annual advance royalty of $25,000; and

iii) a 5% net profits royalty.

The Company holds interest in various other Mexican exploration properties.

Maragua

During 1996, the Company conducted a drilling program at the Maragua property in Bolivia. Initial exploration results did not demonstrate the existence of an economic ore body; consequently, deferred costs of $519,000 relating to this property were written off. During 1995, deferred costs of $226,000 relating to the Carangas property were written off.

7. **SHARE CAPITAL**

a) Changes in issued shares were as follows:

	Number of shares	Amount
Issued as at December 31, 1994	10,254,714	$ 5,562
Shares issued in exchange for special warrants (Notes 7b iv and vi)	6,000,000	25,198
Special warrants issue costs	-	(1,141)
Shares issued for cash on exercise of warrants (Notes 7b iv and v)	2,600,000	6,261
Shares issued for cash on exercise of stock options (Note 7b ix)	326,500	202
Shares issued in exchange for subsidiary (Notes 7b vii and viii)	659,955	3,005
Issued as at December 31, 1995	19,841,169	39,087
Shares issued for cash on exercise of warrants (Note 7b i)	1,750,000	10,332
Shares issued in exchange for special warrants (Note 7b ii)	2,000,000	17,592
Special warrants issue costs	-	(985)
Shares issued for cash on exercise of stock options (Note 7b iii)	118,000	617
Issued as at December 31, 1996	23,709,169	$ 66,643

b) During the years ended December 31, 1996 and 1995, the Company:

i) issued, in 1996, 1,750,000 shares for proceeds of $10,332,000 (C$14,000,000) pursuant to the exercise of share purchase warrants.

ii) issued, in 1996, 2,000,000 shares for net proceeds of $16,607,000 pursuant to the exercise of special warrants. In addition, the Company issued share purchase warrants to purchase an additional 1,000,000 shares at $10.21 (C$14.00) per share, expiring on October 31, 1997. As at December 31, 1996, none of these warrants had been exercised.

iii) issued, in 1996, 118,000 shares on the exercise of stock options for proceeds of $617,000.

iv) issued, in 1995, 2,500,000 shares for net proceeds of $7,206,540 (C$9,830,441) that were received in 1994 pursuant to the exercise of special warrants and issued share purchase warrants to purchase 1,500,000 shares at $3.30 (C$4.50). All of those warrants were exercised in 1995.

v) issued, in 1995, 1,100,000 shares on the exercise of share purchase warrants for proceeds of $1,312,221 (C$1,790,000).

vi) issued, in 1995, 3,500,000 shares on the exercise of special warrants for net proceeds of $16,850,791 (C$22,986,164). In addition, the Company issued warrants to purchase 1,750,000 shares at $5.90 (C$8.00). These warrants were exercised (Note 7b i).

vii) issued, in 1995, 500,000 shares with an ascribed value of $5.50 per share (C$7.50) on the exercise of special warrants and issued warrants to purchase 500,000 shares at $5.47 (C$7.50) per share until December 31, 1999. As at December 31, 1996, none of these warrants had been exercised.

viii) issued, in 1995, 159,955 shares at an ascribed value of $1.60 (C$2.18) per share to acquire 447,177 non-voting shares of Nor Peru.

ix) issued, in 1995, 326,500 shares on the exercise of stock options for proceeds of $202,000.

c) As at December 31, 1996, the following shares are reserved for issuance:

	Number of shares	Exercise price	Expiry date
Warrants	1,000,000	$10.21 (C$14.00)	October 31, 1997
	500,000	$ 5.47 (C$ 7.50)	December 31, 1999
	1,500,000	$ 8.63 (C$11.83)	
Options (Note 11a)	148,500	$ 0.19 (C$ 0.26)	January 31, 1999
	22,000	$ 1.93 (C$ 2.65)	May 31, 1999
	1,010,000	$ 6.75 (C$ 9.25)	September 24, 2000
	150,000	$ 6.75 (C$ 9.25)	September 24, 2005
	70,000	$ 6.75 (C$ 9.25)	December 3, 2000
	60,000	$ 7.48 (C$10.25)	July 5, 2001
	1,460,500	$ 6.04 (C$ 8.28)	
	2,960,500	$ 7.35 (C$10.08)	

d) The net loss per share is calculated on the basis of the weighted average number of shares outstanding during the period. Fully diluted losses per share have not been disclosed because the effect would decrease the loss per share.

8. SEGMENTED INFORMATION

The Company operates in one industry and six countries. The operating activities and identifiable assets for the respective periods are as follows:

Revenue for the period:

Production revenue was generated in Peru. Interest and other income were generated in Canada, the United States and Barbados.

	Twelve months ended December 31 1996	1995	Two months ended December 31 1994	Twelve months ended October 31 1994
Net income (loss) for the period				
Peru	$ **(400)**	$ (967)	$ -	$ -
Canada	**(812)**	275	(22)	(200)
Mexico	**(28)**	(9)	-	-
United States	**(3)**	(34)	(47)	(49)
Bolivia	**(503)**	(226)	-	-
Barbados	**(117)**	24	-	-
	$ **(1,863)**	$ (937)	$ (69)	$ (249)

	December 31 1996	December 31 1995
Identifiable assets		
Peru	$ **14,322**	$ 15,006
Canada	**2,438**	2,145
Mexico	**1,486**	604
United States	**4,144**	4,097
Bolivia	**84**	103
Barbados	**45,204**	23,421
	$ **67,678**	$ 45,376

9. COMMITMENT

The Company must, by June 30, 2000, discharge an obligation to Peruvian employees for employee severance indemnities ("ESI") that had accumulated at December 31, 1990. One-tenth of the obligation is to be paid each year until the year 2000 when the outstanding balance must be paid. At December 31, 1996 the unpaid obligation amounted to $1,704,000 (4,430,000 Peruvian nuevos soles). Current liabilities reflect $370,000 of ESI that is due during 1997.

10. INCOME TAXES

The Company has $635,000 (C$872,000) of non-capital losses available to apply against future Canadian income for tax purposes. These losses will expire over the next seven years. Nor Peru has $33,459,000 of non-capital losses available to apply against future Peruvian income for tax purposes which will expire three years after the first year of utilization of these losses. The potential benefit of these losses has not been recorded in the accounts, due to the uncertainty of ultimate realization.

11. SUBSEQUENT EVENTS

Subsequent to December 31, 1996, the Company:

a) issued 52,500 shares for cash of $255,000 (C$349,000) on the exercise of employee stock options;

b) received proceeds of $291,800 (C$400,000) from the sale of 2,000,000 shares of Zicor. As a result, the Company will recognize a gain of $275,000 (C$377,000); and

c) purchased commodity options that grant the right to buy two million ounces of silver at a price of $4.90 per ounce on July 8, 1997. The cost of the options was $445,000. One million of these options were sold for proceeds of $420,000. In addition, the Company sold options, for proceeds of $145,000, granting the purchaser the right to buy, on July 8, 1997, one million ounces of silver at a price of $5.70. At February 28, 1997, the market value of the one million $4.90 call options was $480,000 and the one million $5.70 call options was $125,000.

12. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which differ in certain respects with accounting principles generally accepted in the United States ("US GAAP"). Had the Company followed US GAAP, certain financial statement items would have been reported as follows:

(i) **Consolidated Statement of Changes in Financial Position**

	December 31 **1996**	December 31 1995
Cash used in operating activities	$ **(1,620)**	$ (671)
Financing activities		
Shares issued for cash during the year	**27,556**	23,283
Investing activities		
Cash spent to acquire subsidiary, net	**-**	(431)
Property, plant and equipment	**(4,842)**	(566)
Resource properties	**(1,345)**	(532)
Severance indemnities	**(2,741)**	(470)
	(8,928)	(1,999)
Net increase in cash equivalents	**17,008**	20,613
Cash and cash equivalents at beginning of year	**25,786**	5,173
Cash and cash equivalents at end of year	$ **42,794**	$ 25,786

Interest paid during 1996 was $333,000 (1995 - $173,000).

Cash and cash equivalents with original maturities of three months or less at December 31, 1996 were $10,969,000 (December 31, 1995 - $25,786,000).

(ii) **Earnings per share**

Primary earnings per share is not presented because the effect of common share equivalents would decrease the losses per share.

(iii) **Other**

The application of SFAS 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of and SFAS 109 Accounting for Income Tax would not create any accounting differences or adjustments.

OFFICERS AND DIRECTORS

Top left to right: Ross J. Beaty and John H. Wright; Bottom left to right: J.E. Fletcher and Michael Maloney.

Board of Directors

Ross J. Beaty
John H. Wright
J.E. Fletcher
Michael Maloney

Senior Management

Ross J. Beaty,
Chairman and Chief Executive Officer

John H. Wright,
President and Chief Operating Officer

Michel Robert,
Senior Vice-President

Tony Hawkshaw,
Chief Financial Officer

Andres Dasso,
Executive Director, Pan American Silver Peru S.A.

Luis Cohello,
President, Pan American Silver Peru S.A.

Mario del Rio,
General Manager, Corporacion Minera Nor Peru S.A.

Jenna Hardy,
Manager, Technical and Environmental Services

Gordon Jang,
Controller

CORPORATE INFORMATION

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Fax: (604) 684-0147

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Fax: 511-441-0570
Manager: Ing. Andres Dasso

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Paseo del Cerrillo 122
Las Colinas, Zacatecas, Zac.
Mexico 98098
Tel/Fax: 52-492-41792
Manager: Ing. Luis Cazares

Bolivia Office
Caporo S.R.L.
Belisario Salinas No.350
3er Mezanine, oficina L-14
La Paz, Bolivia
Tel: 591-243-1116
Fax: 591-243-1116
Manager: Mr. Charles Main

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Deloitte & Touche
Chartered Accountants
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Vancouver, British Columbia
Canada V7X 1P4

Registrar and Transfer Agent
Montreal Trust Company
510 Burrard Street
Vancouver, British Columbia
Canada V6C 3B9

Legal Counsel
Ladner Downs
1200 Waterfront Centre
200 Burrard Street
P.O. Box 48600
Vancouver, British Columbia
Canada V7X 1T2

Authorized Capital
50,000,000 common shares
without par value

Issued Capital
December 31 1996: 23,709,169 shares

Shares Listed
Toronto Stock Exchange
Trading Symbol: PAA
NASDAQ
Trading Symbol:PAASF

Pan American
SILVER CORP.

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